Opening Statement

Congressman Paul E. Gillmor (R-OH)

Subcommittee on Financial Institutions and Consumer Credit
Ranking Member

Hearing entitled: *"Subprime and Predatory Lending: New Regulatory Guidance, Current Market Conditions, and Effects on Regulated Financial Institutions."*

I would like to thank the Chair for calling this important hearing today. I look forward to working with Ms. Maloney and others in Congress during our work on this very important public policy concern. While I am certain that this is but the first in a series of hearings on this subject, it is prudent that the Committee begin its investigation into predatory and subprime lending by looking into how we got here and what the regulators have done to date.

The title points it out, but I believe it is critical that the Committee distinguish between these two types of lending. Predatory lending and subprime lending are two different animals. Some in Congress and the press have blurred the line between these two issues, but they are distinct problems requiring distinct solutions.

In the subprime area, there is no doubt that the past several years have seen a general loosening of underwriting standards. America has one of the highest rates of homeownership in the world. That is good and we should continue to encourage homeownership.

However, you are not doing anyone a favor by putting them in a home with the type of mortgage that when interest rates go up, or they have an economic reverse, they are thrown out of their home.

During then-Chairman Greenspan and Chairman Bernanke's appearances before the Committee recently, I have made it a point to repeatedly voice my concern regarding the proliferation of interest-only and other alternative mortgage products, including those with negative amortization. After interest rates began rising and the housing market began cooling, mortgage originators were pressured by the market to match the volume of the height of the boom. This was too often accomplished through a loosening of credit standards and clearly consumers were put into homes they could not afford just two or three years down the road.

Today we find ourselves on the leading edge of a market correction that has the potential to affect many Americans. We have already seen significant actions undertaken by the mortgage industry, both voluntary and involuntary, to tighten credit standards and improve disclosures. Some 20 subprime lenders have already gone out of business and there is little doubt that we will continue to see news reports of other market forces being brought to bear on those lenders who pushed the subprime envelope to the brink.

There will be pressures placed on Congress to react swiftly to correct for the prevalence of subprime loans. It is a serious problem, but it is important that we take the time to do it right and not be too hasty and do it wrong.

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